

EXHIBIT 2193

INSURED PORTFOLIO MANAGEMENT ALERT REPORT
March 11, 1997

TO: Distribution
 FROM: Dick Heberton
 RE: **Allegheny Health, Education and Research Foundation (AHERF)**
Delaware Valley Obligated Group, PA
 CONCERN: Deteriorating balance sheet and large transfers to affiliates.
 ACTION: **Downgrade to Caution List**

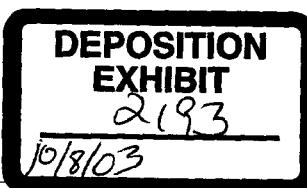
Bond Type:	19	Gross Par Value:	\$306,150,000
Policy #:	212700 212720	Net Par Value:	262,753,238
	212740	Net Debt Service:	468,500,703
Credit #:	PA0543	Next DS Prnt:	8,397,329 Date Due: 5/15/97
		MADS:	21,913,745 Year: 2013
Rating:	MBIA: 6B <i>Downgraded From: 4B</i>	AADS:	18,868,332
	Moody's: Baa(s)	Final Maturity:	11/15/21
	S&P: BBB(s)	Last Approval:	6/19/96

The AHERF Delaware Valley Obligated Group (ADVOG) is being downgraded to Caution List due to its weakening balance sheet and large ongoing cash transfers to affiliated physician groups in the midst of fierce competition in the Philadelphia market. Leverage has risen to a very high 77% debt/cap and liquidity has fallen to a low 27 days cash on hand (\$76MM). While MADS coverage appears strong at 2.98x, if the \$74MM in cash transfers made in 1996 are included, coverage falls to 0.87x. The DSRF requirements are met by MBIA surety bonds. Partially mitigating these concerns are \$123MM in restricted cash and an additional \$200MM in unrestricted cash in the AHERF System, but outside the Obligated Group. Pittsburgh-based AHERF is also the parent of 2C-rated Allegheny General Hospital (NPV: \$67.9MM), which has its own obligated group. AHERF itself is not a member of ADVOG.

This 1,533-bed Obligated Group is comprised of the five hospitals and two medical schools that AHERF has acquired in the Delaware Valley in the last three years including Hahnemann University Hospital, St. Christopher's Hospital for Children and the Medical College of Pennsylvania. Through these acquisitions, AHERF now has the leading (though hardly dominant) market share in Philadelphia at 9%. To help build its market presence and ensure a steady stream of patients, AHERF recently spent large sums acquiring and operating physician groups in the area. In 1996, ADVOG transferred \$74MM to its affiliated physician group and other affiliates to pay for salaries and other expenses. In previous years, this type of transfer was partly treated as an expense, however, in 1996 ADVOG recorded it only as an adjustment to the fund balance. This allowed ADVOG to post an apparent \$27MM profit. If all of the transfer had been treated as an expense, ADVOG would have lost \$47MM. Transfers are occurring at the same level in 1997 and AHERF expects them to continue for the foreseeable future.

Most of the members had fairly weak balance sheets prior to their affiliation with AHERF. Write-offs associated with the acquisitions and the transfers further reduced the fund balance. Combined with rising debt levels, this caused debt/cap to jump to 77% from 61% in 1995. The Group's already low liquidity dropped to only 27 days cash on hand (\$76MM) in 1996 due to the cash transfers and problems converting the hospitals' accounts receivables system to the AHERF system.

There are several other factors mitigating these risks including: 1) the investment in physicians has caused patient volume to rise rapidly; 2) the two medical schools have been consolidated and downsized to reduce costs; and 3) it is logical that the benefits resulting from the large start-up costs of this network will take time to develop. Whether these benefits will outweigh the costs and whether ADVOG has the necessary capital to wait for the payoff is difficult to predict. We will meet with management next month.



MBIA 029899

EXHIBIT 2209

**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION
AUDIT COMMITTEE
Pittsburgh, Pennsylvania**

A meeting of the Audit Committee of Allegheny Health, Education and Research Foundation was held on Friday, March 14, 1997 at 10:00 a.m. in the Board Room of Allegheny Health, Education and Research Foundation, Fifth Avenue Place, Pittsburgh, Pennsylvania and the Board Room of Allegheny University Hospitals, MCP, Philadelphia, Pennsylvania. The meeting was called pursuant to notice duly given in accordance with the Bylaws to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

<u>Members Present</u>	<u>Other Invitees</u>	<u>Members Absent</u>
J. David Barnes	Sherif S. Abdelhak	Robert M. Hernandez
Ralph W. Brenner	William F. Buettner	Graemer K. Hilton
Anthony M. Cook	(Coopers & Lybrand)	W. P. Snyder III
Richard H. Daniel	Carol Gordon	W. Bruce Thomas
	Lynn R. Isaacs	
	Donald Kaye, M.D.	
	David W. McConnell	
	Barry H. Roth	
	Anthony M. Sanzo	
	Diane K. Schrecengost	
	Nancy A. Wynstra, Esq.	

I. Opening of Meeting

The meeting was called to order by J. David Barnes, Chairman. Nancy A. Wynstra, Esq. kept the minutes. The Chairman declared that a quorum was present and that the meeting was competent to proceed.

II. Additions to the Agenda

Mr. Barnes noted there were no additions to the agenda.

Date 10/20/03 Exhibit # 2209
 Case Officier Comm v PNC
 Deponent Daniel
 Reporter Theresa
 Naegeli Reporting Corporation
 (800) 528-3335 FAX (503) 227-7123

GOV 55880

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
 Meeting of the Audit Committee
 March 14, 1997
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III. Approval Items

A. Minutes from the Meeting Held on October 15, 1996

The minutes from the meeting held on October 15, 1996, were reviewed. Upon motion duly made and seconded, the Audit Committee of Allegheny Health, Education and Research Foundation approved the following resolution:

RESOLVED, that the Audit Committee of Allegheny Health, Education and Research Foundation approves the minutes from the meeting held on October 15, 1996, as presented.

B. Coopers & Lybrand Proposed AHERF Audit Plan for FY 1997

William F. Buettner introduced the Coopers & Lybrand proposed Fiscal 1997 AHERF Audit Plan to the Committee, noting that the approach for Fiscal Year 97 will be similar to that used in the past in terms of overall strategy. Meetings have been conducted with AHERF management and with Audit Services to coordinate the plan. The Coopers & Lybrand engagement team will once again be led by William F. Buettner, engagement partner, with Jeff Hoover as concurring partner. Coopers & Lybrand services will be supported by a network of audit, consulting, and tax professionals who have worked on the AHERF audit in the past and who have also supported the Due Diligence process for the several acquisitions AHERF has completed during the current Fiscal Year. A list of the Fiscal Year 1997 audit reports to be prepared and the purpose of each report was presented, along with the proposed schedule of AHERF engagement fees. Mr. McConnell noted that combined external audit fees for AHERF and the organizations with which it had recently merged had historically amounted to over \$1,000,000. He further noted that there is a savings in audit fees after the merger of approximately \$400,000. Mr. Buettner reviewed the audit approach and discussed certain key factors impacting on the audit, including the growth of the physician network, patient receivables management, merger-related costs, and accounting issues. Discussion ensued regarding the continuing emphasis on Accounts Receivable activity, particularly in view of the increasing complexity and number of third-party payor contracts and payment methodologies. The possibility of requesting advance payment or credit card imprint for self-pay admissions and/or services will be studied. Following discussion and upon motion duly made and seconded, the Audit Committee recommended that the Board of Trustees of AHERF approve the following resolution:

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Meeting of the Audit Committee
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RESOLVED, that the Board of Trustees of Allegheny Health, Education and Research Foundation (AHERF) approves the C&L Proposed AHERF Audit Plan for FY 1997 as presented; and

FURTHER RESOLVED, that the Board instructs the Secretary to append a copy of the C&L Proposed AHERF Audit Plan for FY 1997, as approved at this meeting, to the original minutes of the meeting.

C. Proposed FY 1998 and FY 1999 Audit Services Workplans

Diane Schrecengost reported that the proposed Fiscal 1998 and 1999 Audit Services Workplans were prepared using three interrelated factors which contributed to the development of the proposed audit workplans: (1) Consideration of the recent acquisitions in Pittsburgh and the Delaware Valley during which extensive due diligence analyses were conducted to identify, evaluate and correct various finance, operational and legal issues, (2) Continued use of the Board-approved risk assessment methodology, (a comprehensive, interactive process between Audit Services and the AHERF executive management team), and (3) Comprehensive, multi-year risk evaluation schedules which evaluate combined internal and external audit coverage for each AHERF organization's high and moderate risk areas. Discussion ensued regarding Audit Services' continued focus on compliance efforts and reviews of revenue capture, documentation, and coding. The Committee also discussed the adequacy of audit resources/personnel, particularly in the area of information systems. Following discussion and upon motion duly made and seconded, the Audit Committee of Allegheny Health, Education and Research Foundation approved the following resolution:

RESOLVED, that the Audit Committee of the Board of Trustees of Allegheny Health, Education and Research Foundation approves the proposed FY 1998 and FY 1999 Audit Services Workplans; and

FURTHER RESOLVED, that the Committee instructs the Secretary to append a copy of the Audit Services Workplans, as approved at this meeting, to the original minutes of the meeting.

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D. Proposed FY 1998 Audit Services Operating Budget (Pittsburgh and Delaware Valley)

Diane Schrecengost presented the proposed Audit Services Operating Budget for Fiscal Year 1998. The budget reflects the transfer of the Internal Audit function from Graduate Health System into the AHERF Audit Services Department. Industry statistics indicate that the Internal Audit function is appropriately sized and the salaries paid are competitive. Following discussion and upon motion duly made and seconded, the Audit Committee of Allegheny Health, Education and Research Foundation approved the following resolution:

RESOLVED, that the Audit Committee of the Board of Trustees of Allegheny Health, Education and Research Foundation approves the proposed FY 1998 Audit Services Operating Budget for Pittsburgh and the Delaware Valley; and

FURTHER RESOLVED, that the Committee instructs the Secretary to append a copy of the FY 1998 Audit Services Operating Budget, as approved at this meeting, to the original minutes of the meeting.

IV. Information and Discussion Items

A. Review of AHERF Charge to the Audit Committee

Mr. McConnell noted that the Charge to the Audit Committee was presented for review by the Trustees. No changes were recommended by management or the Trustees.

B. Profile of the AHERF Audit Services Department - March, 1997

Diane Schrecengost presented the organizational chart and staff profiles of the members of the Audit Services Department.

C. Review of Audit Services Activities from October, 1996 to Present

Diane Schrecengost reported that summary reports of all Audit Services activity were provided for information, and there were no significant issues to be brought to the attention of the Committee.

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Executive Session

The offer of Executive Session was made to the representatives of Coopers & Lybrand, and the offer was declined.

The offer of Executive Session was also extended to Audit Services, and the offer was declined.

The offer of Executive Session was made to management, and the offer was declined.

Adjournment

There being no further business, the meeting was adjourned at approximately 11:05 a.m.

Respectfully submitted



Nancy A. Wynstra
Secretary

NAW:cg

c:\minutes\031497.aud

NOTED ATTACHMENTS: Notice of meeting; Coopers & Lybrand Proposed AHERF Audit Plan for FY 1997; FY 1998 and FY 1999 Audit Services Workplans; and FY 1998 Audit Services Operating Budget for Pittsburgh and the Delaware Valley.

GOV 55884

ALLEGHENY
HEALTH, EDUCATION AND
RESEARCH FOUNDATION

Fifth Avenue Place, Suite 2900
120 Fifth Avenue
Pittsburgh, PA 15222-3009

MEETING NOTICE

TO: Members of the AHERF - Audit Committee

FROM: Cherry S. White

DATE: February 14, 1997

SUBJECT: Allegheny Health, Education & Research Foundation
Audit Committee Meeting

There will be a meeting of the AHERF Audit Committee on Friday, March 14, 1997 at 10:00 a.m. The meeting will be held via videoconference in the AHERF Fifth Avenue Place Board Room in Pittsburgh, and the Allegheny University Hospitals, MCP Board Room in Philadelphia.

I would appreciate it if you would indicate your anticipated attendance at this meeting by returning the enclosed post card. If you have questions, please contact me at 412/359-5025.

Thank you.

CSW/jlf

Enclosure

PGH: 25547.1

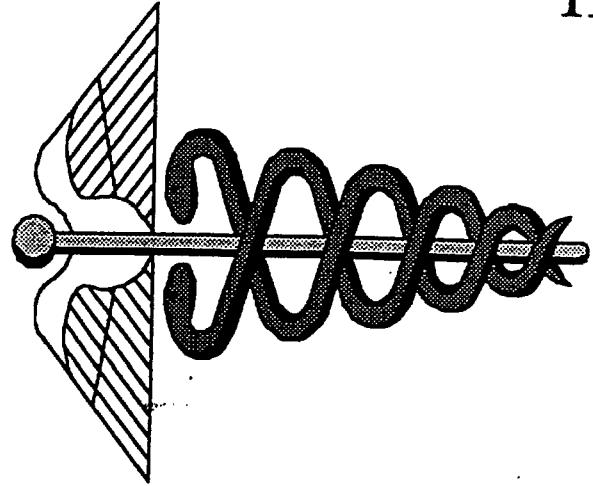
*Members of the Allegheny Health, Education and Research Foundation
Allegheny General Hospital • Allegheny Integrated Health Group • Allegheny University of the Health Sciences •
Allegheny University Hospitals • St. Christopher's Hospital for Children*

GOV 55885

Coopers
& Lybrand

1661

AHERF Audit Plan



Coopers & Lybrand L.L.P.

a professional services firm

GOV 55886



Coopers & Lybrand L.L.P. | 600 Grant Street
35th Floor | telephone (412) 355-8000
Pittsburgh, Pennsylvania | facsimile (412) 355-8089
15219-2777

March 17, 1997

*Audit Committee of the Board of
Trustees of Allegheny Health,
Education and Research Foundation:*

Last year we spoke to you about the constant change in the healthcare industry. We discussed the fact that patients and payors demand higher quality service at lower costs, managed care continued to penetrate AHERF's marketplace and the government continued to demand increased efficiency in service delivery as they manage budgetary constraints through reduced healthcare funding. This year is no different. Healthcare is in a state of flux whereby providers, insurers, physicians and consumers attempt to react to these changes and position themselves to succeed in the future. Each player has a different perspective of what will be required for the next millennium. Some believe that size is the best approach, others believe that an organization must maintain its autonomy, while others believe that the only way to proceed is through an integrated delivery model. The provider that has the foresight to adapt to the changes and position itself will be an industry leader.

AHERF Continues its Growth into the New Millennium

AHERF has vastly expanded its system in the past 6 months. With the affiliation with the former Graduate Health System Hospitals, Forbes Health System and the Allegheny Valley Health System, AHERF has expanded its capacity to provide services to its communities. In addition, the recent transaction with the Penn Group Medical Associates will significantly increase the physician network in the Pittsburgh area and allow AHERF to increase the number of covered lives under its risk contracts.

Each affiliation has been designed to better position AHERF to be a leader in its field; however, with each affiliation, issues related to operations arise that must be addressed by AHERF management and Coopers & Lybrand. As management absorbs the additional organizations into the AHERF system, it is faced with decisions regarding information systems, physician network management, the impact of managed care, billing and collecting of accounts receivable and real estate management, to name a few.

In addition to the affiliations, the complexity of the industry continues to present risks to the organization. For example, with the increase in patient volume, the changes in insurance contracts and the implementation of electronic billing in many instances, the billing and collection of patient receivables remains a high risk area. The physician network requires management to constantly monitor and change its internal control structure to deal with the decentralized operations of the various individual physicians and groups. The changing information system requirements, coupled with the conversions for the new entities that will join the system, create pressure on the information systems to provide accurate and timely information for management to base decisions on.

*Audit Committee of the Board of
Trustees of AHERF
March 17, 1997*

Coopers & Lybrand's Approach

These are but a few of the risks that AHERF will face and we will consider in designing our audit approach.

We believe that the only way to adequately audit an organization's books and records is to understand the organization's strategic objectives and the risks that these will present. We have maintained close contact with AHERF's management throughout the year through our due diligence procedures on the various affiliations, as well as through regular information update meetings with senior management. Through these interactions, we have gained a thorough understanding of AHERF's operations and have designed an audit approach that is tailored to these risks.

Throughout this booklet, we present the areas that we have identified to focus our attention. In each area we provide a brief summary of the financial statement accounts that are affected, as well as a summary of our approach to auditing the accounts. It should be noted that our audit focuses on the internal controls over applications and related processes. As a result, before we begin to perform detailed audit work on any account, we obtain an understanding of the controls that are designed to be operating and determine if they are designed appropriately and operating effectively. As we obtain our understanding and complete our testing of the controls, we will be alert to areas where the controls may not be designed appropriately or are not operating as designed and will report these to you at the conclusion of the audit.

It should be noted that we will place reliance on the work of your Audit Services Department whenever possible. We have maintained communication with Diane Schrecengost throughout the year, have discussed her plan for the upcoming year and have considered the results of each of the completed internal audits in designing our audit approach. The utilization of the Audit Services Department and its focus on risk areas is a strong control for AHERF management.

From the perspective of service delivery, we believe that the only way to provide quality service is to have experienced staff on the engagement that are well versed in the industry and have an in-depth knowledge of your organization. Accordingly, we strive to maintain continuity on the audit engagement. For the coming year, each of our senior engagement team members has been on the AHERF audit in previous years. Our team will continue to be led by Bill Bueftner. Bill has been the partner on the AHERF engagement for several years. He has extensive experience in the healthcare industry and has been an integral member of the due diligence teams on several of the transactions you have completed.

Assisting Bill will be Jeff Hoover as concurring partner. Jeff was the AHERF engagement manager from 1991 to 1993 and is now a partner in our Pittsburgh Office focusing on healthcare service delivery. Bill and Jeff have access to a wide range of professionals in various disciplines that are available to assist AHERF in managing your growth. For each discipline, we have assigned a partner or director to the AHERF engagement to ensure that you have access to appropriate experts, as needed.

Audit Committee of the Board of
Trustees of AHERF
March 17, 1997

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Lastly, we would like to make you aware that each of our engagement team members has access to our Global Benchmarking for Excellence database or GLOBE. GLOBE is a database that Coopers & Lybrand has designed that provides access to best practices that successful organizations have implemented throughout the world. We will utilize the information in GLOBE to identify areas where AHERF could use assistance and to point out areas where AHERF is a leader in its field.

Overall, we believe that our risk based approach, coupled with our experienced team and their access to the best practices that are utilized in other healthcare organizations will provide you with significant value.

Emerging Issues

As a separate section of the Audit Committee agenda material, we have prepared a brief discussion of many of the emerging accounting, reporting, regulatory and tax issues AHERF will face in the near future. We appreciate the opportunity to discuss these at greater length with you and management.

Summary

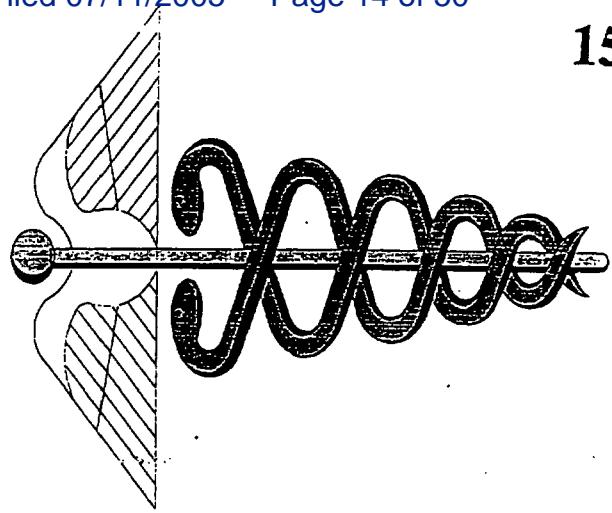
This booklet is designed to provide you with an overview of the risks that we perceive at AHERF, our approach to auditing your organization considering these risks and an overview of how we intend to deliver value to your organization throughout the audit process.

We enjoy our relationship with AHERF and look forward to continuing our relationship into the new millennium.

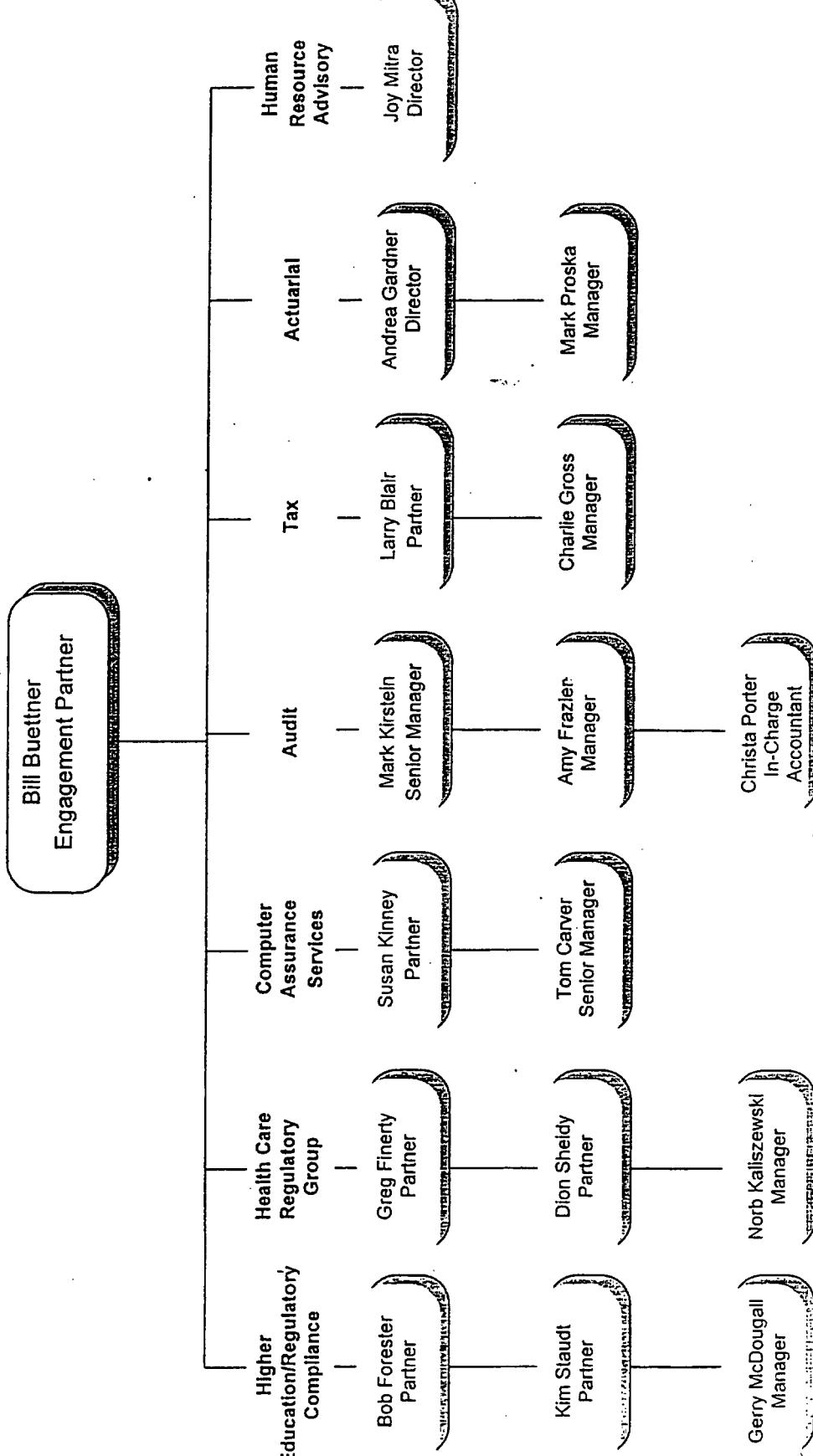
Very truly yours,

Coopers & Lybrand L.L.P.

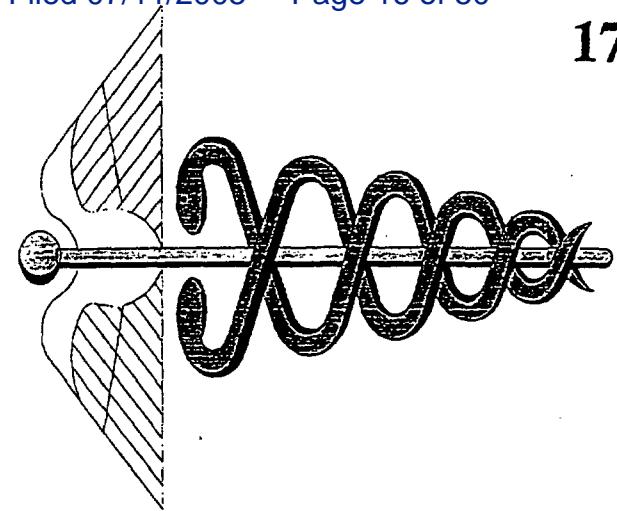
The Coopers & Lybrand
AHERF Engagement Team



AHERF Engagement Team



AHERF Affiliations



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AHERF AFFILIATION ACTIVITIES

During the current fiscal year, the AHERF system has experienced a great deal of change and has reacted to the challenging environment that a healthcare organization is forced to encounter with the pressures of healthcare reform. AHERF, as it develops a network of physicians and hospitals to deliver care, will be faced with a number of operational challenges, including, but not limited to information and accounting system conversions, restructuring costs to gain efficiencies and policy and procedural changes. This section is designed to provide a timeline of events that have and are expected to occur during fiscal year 1997 related to the affiliation of Graduate Hospital, Parkview and City Avenue Hospitals, Mt. Sinai Hospital, Zurbrugg and Rancocas Hospitals and GHS Re Limited, a captive insurance company, into the AHERF system. The timeline also includes the affiliations of Forbes Regional Hospital and Forbes Metropolitan Hospital and Allegheny Valley Hospital with the Allegheny University Medical Center and the more recent acquisition of Penn Group Medical Associates.

Our audit procedures have been designed to address the complicated accounting and business issues surrounding AHERF's affiliations, including the evaluation of accounting for business combinations, the assumptions utilized in developing asset valuations, information and accounting system conversions and tax implications. Furthermore, the structure of financial reporting is closely knit to the requirements of the AHERF system's bond trustees. Compliance with debt covenants in a year of transition will also be of heightened focus.

AHERF Affiliation Timeline

1996

August
► Announcement of Graduate Affiliation with SDN
► Announcement of Forbes Affiliation with AUMC

October
► Graduate Due Diligence Procedures Begin

November
► Graduate Hospital, Parkview/City Avenue Hospitals,
Mt. Sinai Hospital and GHS Re Limited among others,
are affiliated with SDN effective November 1, 1996

December
► Forbes Due Diligence Procedures Begin
► Announcement of Allegheny Valley affiliation with
AUMC

January
► Effective January 1, 1997, Rancocas Hospital joins
SDN and Forbes joins AUMC

February
► Graduate General Ledger Conversion
► Announcement of Penn Group Medical Associates
Acquisition
► Allegheny Valley Due Diligence Procedures Begin

March
► Effective March 1, 1997 Allegheny Valley joins AUMC

April
► Graduate Purchasing System Conversion

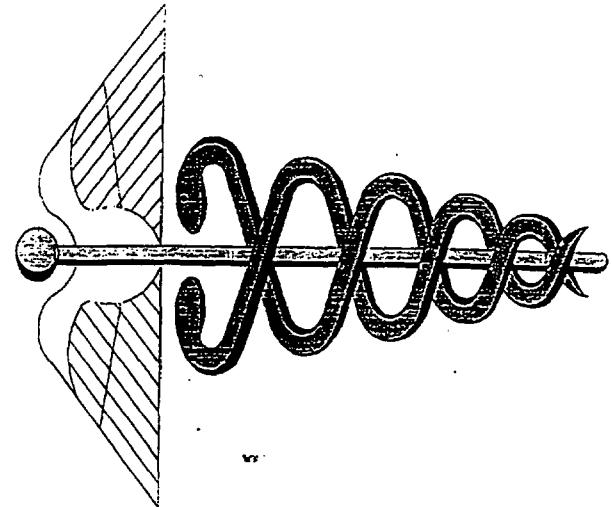
May
► Coopers & Lybrand Review of Accounting Treatment
for Affiliations

July
► Forbes and Allegheny Valley General Ledger
Conversion

August
► Coopers & Lybrand 1997 Audit Phase

September

Next Millennium Challenges



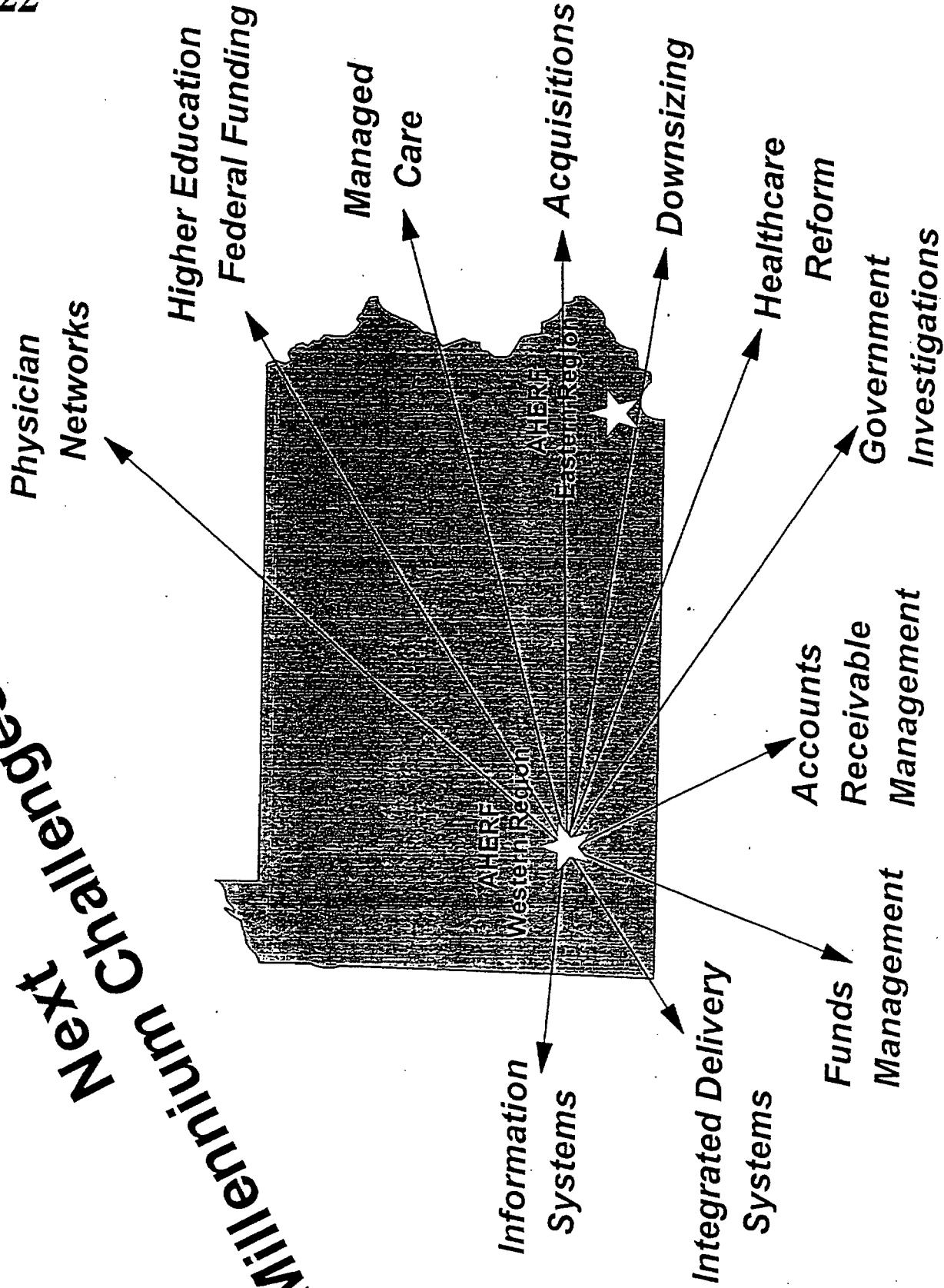
NEXT MILLENNIUM CHALLENGES

The following section has been provided to highlight the business risks that a healthcare organization entering the Year 2000 will be faced with. The business risks have been tied to their financial statement implications and how Coopers & Lybrand's audit approach has been engineered to address these risks. The AHERF organization has clearly demonstrated that it is a leader in the delivery of healthcare services and education and research activities and will continue to be a leader in the future. Coopers & Lybrand believes it is necessary to design our audit approach to mirror the challenges faced by AHERF and react to the business issues that AHERF encounters.

As previously indicated, Coopers & Lybrand's audit approach will be supplemented with our Global Benchmarking for Excellence (GLOBE) database. This database provides our engagement team with global knowledge of industry risks, best practices and benchmarking that will assist us in designing and applying an effective and efficient audit approach to the AHERF engagement.

Lastly, this section also graphically highlights our audit approach by area of emphasis. We have designed our audit approach to focus on those areas which management and Coopers & Lybrand believe to be of higher risk to the organization.

**Next Challenges
Millennium**



*NEXT MILLENNIUM CHALLENGES,
AND C&L'S APPROACH TO
FACING THESE CHALLENGES*

BUSINESS RISK	FINANCIAL STATEMENT AND OPERATIONAL IMPLICATIONS	C&L AUDIT APPROACH
<i>Physician Networks</i>	<ul style="list-style-type: none"> • Goodwill/Intangibles • Capitation Contracting • Physician Employment Contracts • Valuation Issues Associated with Acquisitions 	<i>Consistent with prior year physician practice acquisitions, C&L will continue to review samples of physician agreements. Additionally, we will evaluate management's assessment of value for recorded goodwill and other intangibles and the appropriateness of amortization periods.</i>
<i>Higher Education Federal and State Funding</i>	<ul style="list-style-type: none"> • Federal and State Funding of Sponsored Research and Student Financial Aid • Compliance with Spending Requirements 	<i>This is an area of continued focus and growth for the AHERF system. We will continue to perform compliance audit procedures over such spending and evaluate the impact of non-compliance, if any, on the financial statements.</i>
<i>Accounts Receivable Management</i>	<ul style="list-style-type: none"> • Electronic Billing Procedures • System Conversions • Third-Party Payer Reimbursement • Collection Follow-Up 	<i>Accounts receivable management continues to be an area of challenge for the AHERF system. C&L's approach is designed to focus on the risks associated with the complicated reimbursement process. As in prior years, we will continue to assess the reasonableness of contractual allowances, evaluate aging categories and the net realizable value of patient accounts based on historical results, as well as review third-party adjustments and settlements for current and prior years.</i>

**NEXT MILLENNIUM CHALLENGES,
AND C&L'S APPROACH TO
FACING THESE CHALLENGES**

BUSINESS RISK	FINANCIAL STATEMENT AND OPERATIONAL IMPLICATIONS	C&L AUDIT APPROACH
Managed Care/Integrated Delivery Systems	<ul style="list-style-type: none"> • Capitation Contracting • Evaluation of Incurred but not Reported Claims • Services Provided Outside the Network • Retroactive Adjustments Based on Enrollment • Contingent Liabilities • Efficiencies of Network Care Delivery 	<p>The AHERF system, particularly with the recent acquisitions and affiliations, has been increasing the number of lives covered by capitation agreements. C&L will work closely with management to review new contracts and evaluate accounting estimates for all contracts in the system. C&L will continue to review AHERF's utilization statistics, payor mix, managed care contracts and other statistics to measure and provide meaningful comments to management and identify risks associated with service delivery in an integrated system. Our audit approach will consider the impact of full risk contracts and the impact of retroactive adjustments.</p>
Acquisitions	<ul style="list-style-type: none"> • Goodwill Recognition • Reimbursement Impact • Merger Related Expenses • Operating System Conversions • Reporting Structure • Valuation of Assets 	<p>C&L will review management's acquisition accounting for all current year activities. Such evaluation will include an analysis the accounting treatment to record the acquisition, merger costs and the recognition of such costs. As indicated previously, our procedures will also include a review of the assumptions utilized in the asset valuation process, debt compliance, changes in the internal control structure and tax implications.</p>

**NEXT MILLENNIUM CHALLENGES,
AND C&L'S APPROACH TO
FACING THESE CHALLENGES**

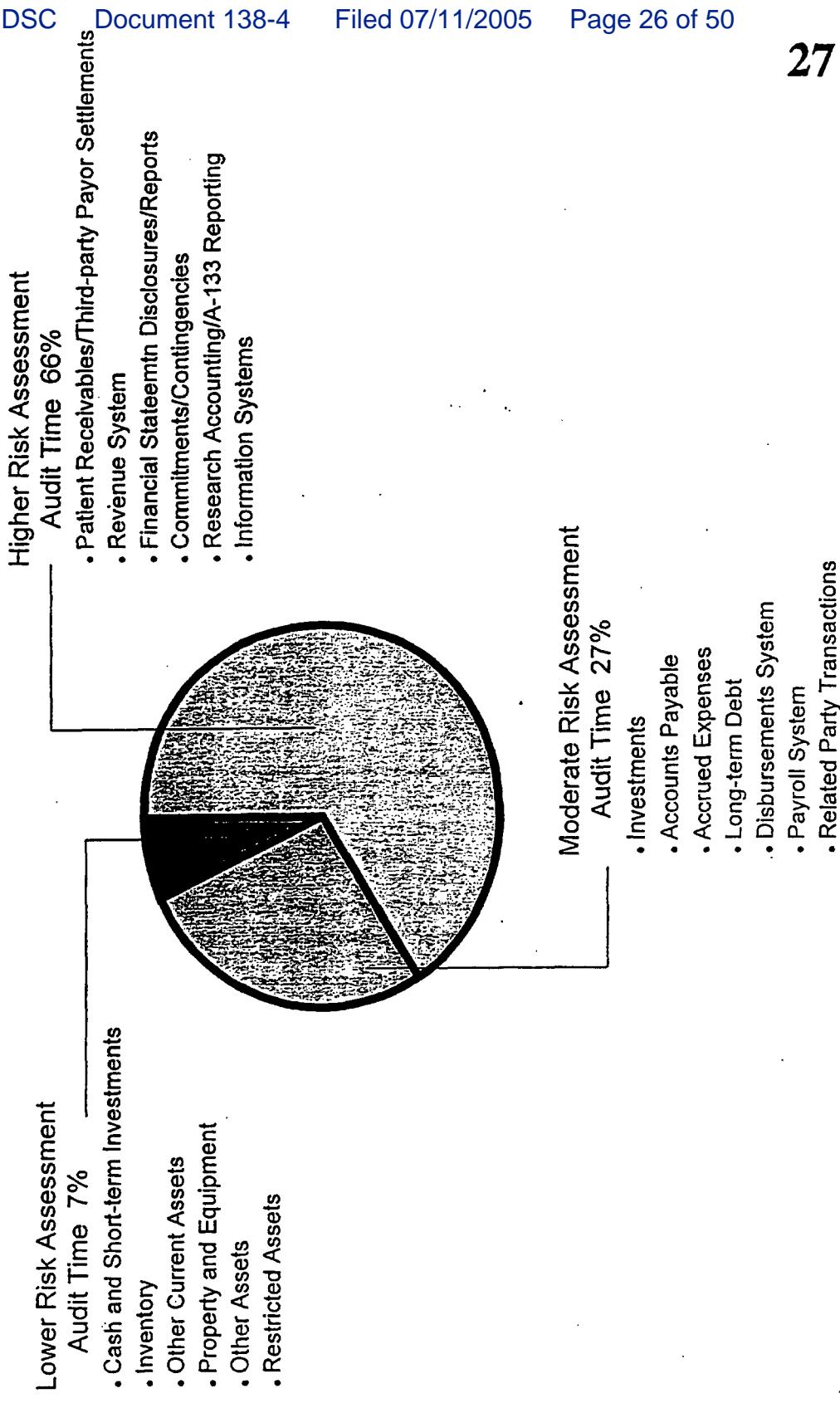
BUSINESS RISK	FINANCIAL STATEMENT AND OPERATIONAL IMPLICATIONS	C&L AUDIT APPROACH
Downsizing	<ul style="list-style-type: none"> • Staff Reductions • Changes in the Internal Control Structure to Account for Reduced Staffing 	<p>C&L will continue to meet with finance and operations personnel to understand the impact of any such changes, including downsizing costs associated with restructuring operations to gain efficiencies. Our procedures will include an evaluation of the propriety of such charges and sufficient disclosure in the financial statements.</p>
Healthcare Reform	<ul style="list-style-type: none"> • Patient Care Delivery Redesigns • Reimbursement Impact From Government Funded and Private Programs 	<p>Changes in healthcare delivery and the impact of reform effect the AHRF system daily. Such changes reduce the reimbursement of care; however, to manage the cost of such changes, the AHRF system continues their focus on ensuring quality and efficiency in the delivery of services. We will continue to meet with finance and operational personnel to understand the impact of such changes.</p>
Government Investigations	<ul style="list-style-type: none"> • Billing and Coding Procedures • Reasonableness of Physician Compensation • Reporting of Unrelated Business Income 	<p>The Inspector General continues to provide special attention to the healthcare industry. C&L will continue communication with management to address those areas receiving recent attention and the impact, if any, on the financial statements.</p>

**NEXT MILLENNIUM CHALLENGES,
AND C&L'S APPROACH TO
FACING THESE CHALLENGES**

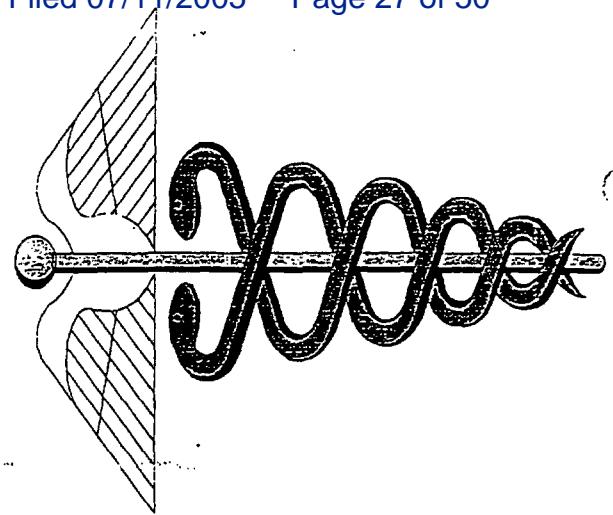
BUSINESS RISK	FINANCIAL STATEMENT AND OPERATIONAL IMPLICATIONS	C&LAUDIT APPROACH
<i>Funds Management</i>	<ul style="list-style-type: none"> • Reductions in Reimbursement • Debt Refinancings • Investment Funds Management • Affiliation Integration • Off-Balance Sheet Financing with Leasing Transactions 	<p>With reductions in funding and the challenges of integrating systems, cash flows, tracking of investing activities and debt refinancings are important to the success of a healthcare organization. We will meet with management to identify the changes in the investment tracking, test controls over buy, sell and trading activities and review third-party internal control reports of the investment trustees. Furthermore, as needed, we will modify our approach based on bond trustee and internal reporting requirements. As part of our audit procedures associated with debt, we will continue to review debt covenants for compliance and confirm the outstanding obligations. Additionally, as in the past, we will review lease commitment contracts to evaluate proper accounting treatment and disclosure in the financial statements.</p>
<i>Information Systems</i>	<ul style="list-style-type: none"> • Designs for Managed Care Tracking • Capitalization of Internal Costs • Year 2000 Compliance • Acquisition Conversions 	<p>This represents an area of high cost and importance to a healthcare organization. Without the infrastructure in place to handle such dramatic changes, conversions are not likely to be successful. We will continue to work closely with management to understand and test system changes and the impact that such changes have on the financial statements and internal controls.</p>

C&L Audit Effort by Level of Emphasis

Our determination of audit areas and allocation of audit time (by level of audit emphasis and risk assessment) for 1997 is depicted below:



Significant Accounting and Reporting Developments



SIGNIFICANT ACCOUNTING AND REPORTING DEVELOPMENTS

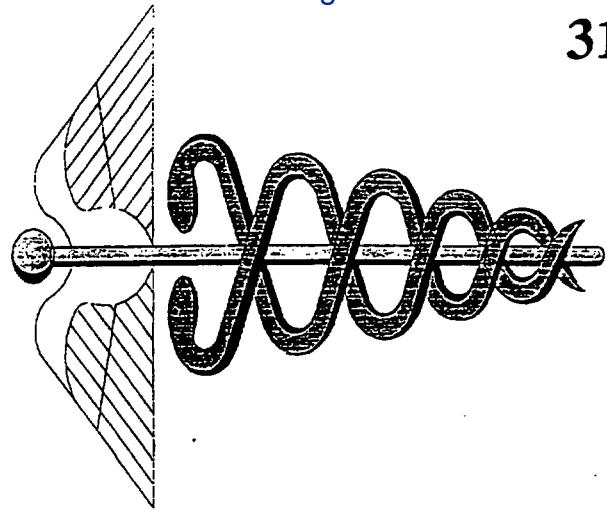
The following represents of summary of accounting and reporting developments that are believed to impact the healthcare industry and AHERF during the current and future fiscal years. The table has been designed to highlight the development, a summary of the implications of adoption and the effective date for transition.

DEVELOPMENT AND EFFECTIVE DATE OF ADOPTION	AHERF IMPACT
AICPA Health Care Organization Accounting and Auditing Guide - Effective fiscal year 1997	<p>The guide requires the statement of operations to include a performance indicator that clearly identifies the results of operations and is defined in the notes to the financial statements.</p>
SFAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of" - Effective fiscal year 1997	<p>The guide further provides clarification to Statement of Financial Accounting Standard (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Such clarification requires designation of debt and equity securities between two categories "trading securities" and "available-for-sale securities," as defined in SFAS No. 115 "Accounting for Investments in Debt and Equity Securities." Once designated, unrealized gains and losses on other than trading securities are met to be included in the performance indicator on the statement of operations.</p>

SIGNIFICANT ACCOUNTING AND REPORTING DEVELOPMENTS

DEVELOPMENT AND EFFECTIVE DATE OF ADOPTION	AFTER IMPACT
SFAS No. 125, "Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities" - Effective fiscal year 1997	<p>This statement provides guidance to various industries. As it relates to the healthcare industry, the statement supersedes SFAS No. 76 "Extinguishment of Debt." Previously, if debt was considered to be extinguished by an in-substance defeasance, under the provisions of SFAS No. 76 only, a general description of the transaction in the notes to the financial statements was required. The disclosure included the amount of debt that is considered extinguished at the end of the period so long as that debt remains outstanding and the related fair value of the trustee assets set aside to meet the obligations. SFAS No. 125, by superseding SFAS No. 76, eliminates the in-substance defeasance option and requires the liability and related assets remain on the balance sheet.</p>
OMB Circular A-133 "Audits of Institutions of Higher Education and Other Non-Profit Institutions" - Effective fiscal year 1997	<p>The OMB has issued revised requirements for higher education and non-profit institutions receiving federal funding. The revised standards have changed reporting and testing to focus on a risk-based audit approach and reduce the burden of reporting under such standards for smaller organizations.</p>
EITF Issue 96-14 "Costs Associated with Modifying Software for the Year 2000" - Effective fiscal year 1997	<p>As the next millennium approaches and the cost of upgrading information systems becomes evident to organizations, the EITF has issued a statement that provides guidance on the recognition of costs associated with the software modifications. Those costs associated with becoming "Year 2000 Compliant" are to be recognized as expense in the period incurred. This issue does not address the purchase or upgrade of hardware or software that replace existing systems that is not year 2000 compliant.</p>
SOP Exposure Draft, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" - Effective fiscal year 1999	<p>The proposed SOP permits capitalization of costs associated with developing and implementing internally used software. Training and maintenance costs are to be expensed as incurred and an impairment analysis should be performed in accordance with SFAS No. 121.</p>

Engagement Fees & Reporting Structure



ENGAGEMENT FEES & REPORTING STRUCTURE

The following pages summarize our fee estimate for the reports on the audits and other reporting requirements that we have been requested to complete for the year ended June 30, 1997. You will notice that the fees, as proposed, have increased approximately 3% from the fees for the 1996 AHERF engagement despite the significant growth that the organization has realized through the affiliations with the Graduate Health System, the Allegheny Valley Health System and the Forbes Health System. The total proposed 1997 fee includes a reduction of approximately \$110,000 related to the items that we previously reported upon in 1996 offset by an increase of approximately \$135,000 related to additional procedures that will be required for the new affiliated entities and the addition of one captive insurance company and four additional benefit plan audits for 1997.

Proposed 1997 Audit Fees				
Financial Statements/Reports	Report Purpose	Actual 1996	Proposed 1997	
Financial Statement Audits (including required debt compliance letters):				
Consolidated Financial Statements of Allegheny Health, Education & Research Foundation, including Supplemental Consolidating Schedules	Guaranty and Suretyship Agreement (PNC Line of Credit)	32,000	N/A	
Allegheny General Hospital (AGH) Obligated Group	Restated and Amended Master Trust Indenture	94,000	N/A	
Delaware Valley Obligated Group		295,000	N/A	
Allegheny Singer Research Institute	Internal Requirement	13,000	N/A	
Allegheny Integrated Health Group		18,000	N/A	
Total AHERF Financial Statement Audits		452,000	458,000	

Proposed 1997 Audit Fees				
Financial Statements/Reports	Report Purpose	Actual 1996	Proposed 1997	
A-133 Audits:				
Allegheny Singer Research Institute	U.S. Office of Management and Budget (OMB) Requirement	24,000	N/A	
Delaware Valley Combined A-133 Report	U.S. OMB Requirement	83,000	N/A	
Total Combined AHFRF A-133 Audits		107,000	93,000	
Insurance Company Audits:				
Allegheny Health Services Providers Insurance Company	Cayman Island Insurance Requirement	18,000	19,000	
Hahnemann Insurance Company, Inc.	Vermont Department of Insurance Requirement	10,000	8,000	
GHS Re Limited	Bermuda Department of Insurance Requirement	N/A	8,000	
FHS Insurance Ltd.	Cayman Island Insurance Requirement	N/A	5,000	
Total Insurance Company Audits		28,000	40,000	

Proposed 1997 Audit Fees				
Financial Statements/Reports	Report Purpose	Actual 1996	Proposed 1997	
Benefit Plan Audits:				
<i>Defined Benefit Plans:</i>				
• Retirement Account Plan for Employees of Allegheny Health, Education and Research Foundation	ERISA Requirement	20,000	18,000	
• Retirement Plan for Employees of Allegheny Valley Hospital	ERISA Requirement	N/A	4,000	
• Allegheny Valley Hospital Retirement Savings Plan		N/A	3,000	
• Retirement Plan for the Employees' of the Forbes Health System	ERISA Requirement	N/A	7,000	
• Graduate Hospital Pension Plan	ERISA Requirement	N/A	4,000	
• Zurbrugg Memorial Hospitals Retirement Income Plan	ERISA Requirement	N/A	4,000	
<i>Defined Contribution Plan:</i>				
Hahnemann University Non-Contributory Defined Contribution Retirement Plan	ERISA Requirement	5,000	3,000	
Total Benefit Plan Audits		25,000	43,000	

Proposed 1997 Audit Fees					
Financial Statements/Reports	Report Purpose	Actual 1996	Proposed 1997	Financial Statements/Reports	Report Purpose
Other:					
AHERF Management Incentive Plans	Internal Requirement	10,000	11,000		
Prudent Buyer Computations	Third-Party Payor Requirement	5,000	7,000		
AGH Spina Bifida Program	Commonwealth of Pennsylvania Audit Requirement	2,500	2,000		
Total Other		17,500	20,000		
Grand Total		629,500	654,000		

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Fiscal 1998 and 1999 Audit Services Workplans
Discussion

INTRODUCTION

Audit Services' Fiscal 1997 Workplan provided for audits and/or reviews of a wide variety of activities across the AHERF system. In particular, significant attention was devoted to billing matters and various human resources/benefit-related areas. Progress on the Fiscal 1997 Workplan is discussed herein. This section also includes a discussion of Audit Services' annual risk assessment/planning process and the resulting proposed Fiscal 1998 and 1999 Workplans.

STATUS OF FISCAL 1997 WORKPLAN

During Fiscal 1997, Audit Services' activities have been guided by its Board-approved Workplan. We have also attempted to remain responsive to changing risk and circumstances within the AHERF system. Accordingly, Audit Services has also participated in a variety of special reviews and/or management requests during the year.

In response to a request by the Audit Committee, charts have been prepared to show the current status of completion of the approved Fiscal 1997 Audit Services' Workplans. As indicated, Audit Services has completed (or is in the process of completing) virtually all of the planned audit projects for Pittsburgh and the Delaware Valley. In addition, the combined Pittsburgh and Delaware Valley Departments completed thirteen follow-up reviews of previously issued audit reports.

Audit Services will carry forward three Fiscal 1997 projects to the proposed Fiscal 1998 Workplan: AHERF Retirement Plan Audit, a Wage and Hour Compliance Review, and the AHERF Nurse Staffing and Scheduling System (ANSOS) Audit.

During Fiscal 1997, Audit Services performed a significant number of unplanned reviews and projects. These reviews are generally performed at the request of management; by their nature, these unplanned projects often represent areas of high risk, sensitivity or dollar significance. Unplanned projects initiated and/or completed during Fiscal 1997 include the following:

- various corporate credit card, travel and travel policy-related reviews,
- investigation, quantification and repayment of various billing errors and/or irregularities (including communication with third-party/government agencies and internal/external legal counsel),
- benchmarking analyses for service utilization, revenue recognition, pricing and coding for various hospital and physician departments/divisions,

- assistance in the development of the IRS voluntary compliance program filing for AHERF's Matched Savings (403(b)) Plan, including providing assistance to management in the development of action plans to correct weaknesses and/or deficiencies,
- feasibility analysis for the possible implementation of a concurrent billing audit process at AGH,
- investigations of possible employee theft and/or wrongdoing, and
- participation on various management committees and/or task forces focusing on specific operational issues such as billing process improvement, revenue/coding self audits, PC equipment leasing program development and the information services advisory group.

The following charts show the current status of Audit Services' approved Fiscal 1997 Workplans.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION Status of Fiscal 1997 Pittsburgh Workplan	
PROJECT	STATUS AT 3/1/97
Automated Narcotics (including Baxter Suremed System) Audit	Completed
AHERF End-User Computing Audit	Completed
Internet Risk and Exposure (AHERF-wide) Audit	Completed
AGH Clinical Information System (EMTEK) Audit	In process
DVR Student Information and Financial Records System (SCT) Audit	In process
AHERF Decision Support and Executive Systems Audit	In process
Pittsburgh IS-Data Center Operations and General Controls	In process
AHERF Nurse Staffing and Scheduling System (ANSOS) Audit	Carried Forward to FY 98
Managed Care Contract Reimbursement Verification	In process
Accounts Receivable - Collection Agency Relationships	In process
Physician Relationships and Contracts	In process
AIHG Primary Care North (Richland Office) Professional Fee Billing Point-of-Service Audit	In process
AGH Outpatient Surgery Center Operational Audit	In process
AGH Emergency Room Point-of-Service Audit (Hospital and Professional Fee Billing)	Completed
Management Business Expenses (AHERF-wide)	Completed
Travel and Business Expenses (Non-executive)	Completed
Sales and Use Tax Compliance	Completed
Wage and Hour Compliance	Carried Forward to FY 98

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION Status of Fiscal 1997 Delaware Valley Workplan	
PROJECT	STATUS AT 3/1/97
Admission, Discharge and Transfer System (under Patient Focused Initiative)	Completed
Managed Care Contract Reimbursement Verification Audit	In process
Time Allocation Process: Research Grants and Contracts	In process
Bursar's Office/Student Affairs	In process
Equipment Rental/Contract Maintenance	Completed
External Rotation of Residents	In process
Medical Audit: Statistical Presentations: Charging and Documentation Accuracy/Completeness	Completed
Employee Travel & Business Expense (AUHS)	Completed
Controlled Substance Audit - Hahnemann	Completed
Support to Non-Employed Physicians	Completed
Flexible Benefits Administration	Completed
SCHC Emergency Center Audit	Completed
AUHS Emergency Medicine Professional Billing Audit (SCHC)	Completed
AUHS Professional Fee Billing: Point-of-Service Audits	In process
Pharmacy Operations Audit (DV-wide)	In process
Medical Audit: Concurrent Review (targeted cases)	Ongoing
Medical Audit: Third/Fourth-Party Defense Audits	Ongoing
AIHG Point-of-Service Operational Reviews	In process
AHERF Retirement Plan/Pension Administrator System	Carried Forward to FY 98
Outpatient Registration, Charge Capture and Coding Audit (AHERF-wide)	In process
Maintenance and Engineering Audit (DV-wide)	In process
AHERF Purchasing Practices: Prime Vendor Relationships Review	In process
Wage and Hour Compliance	Carried Forward to FY 98

DEVELOPMENT OF FISCAL 1998/99 AUDIT SERVICES WORKPLAN

The development of the Fiscal 1998 and Fiscal 1999 Workplans considered three interrelated factors/methodologies: (1) the impact of AHERF's recent acquisitions in both Pittsburgh and the Delaware Valley, (2) the historical, Board-approved risk assessment methodology, and (3) comprehensive risk evaluation schedules which indicate the combined external and internal audit coverage for high/medium risk areas for each AHERF organization. These factors, and their impact on the proposed Workplans are discussed below.

Each of the organizations acquired by AHERF during Fiscal 1997 was evaluated by AHERF management and its external advisors during an extensive and comprehensive due diligence process. The due diligence analyses (which evaluate in detail an organization's legal, financial and operational areas) resulted in a series of reports (including findings and recommendations) designed to assist AHERF management in identifying and resolving various issues and transitioning the newly-acquired entities into the AHERF system. Due to the extensive nature of the due diligence processes (and the increased attention given to the acquired entities during C&L's Fiscal 1997 audits), Audit Services has not proposed any planned audit projects for Fiscal 1998 for Graduate Health System (Graduate), Forbes Health System (Forbes), Allegheny Valley Health System (AVHS) and the HealthAmerica medical practice operations (HealthAmerica MPOs). Instead, Audit Services recommends that AHERF management address the issues identified during due diligence and devote its attention to understanding, converting and/or coordinating the Graduate, Forbes AVHS and HealthAmerica MPO entities into AHERF's corporate standards and strategies. Audit Services would, of course, accommodate appropriate management and/or Board requests for specialized audits/reviews at the newly-acquired organizations.

The Board-approved risk assessment process traditionally used by Audit Services in developing its annual Workplan was employed for the Fiscal 1998/99 plans. The methodology (which involves an ongoing evaluation of issues, risks and concerns affecting the AHERF system) is a structured, interactive process between Audit Services and the AHERF executive management team. The risk assessment process involves the following:

- Development/Maintenance of the Audit Universe - The AHERF audit universe (which is constantly updated to reflect changing internal and external circumstances) is a system-wide listing of departments, functions, financial areas, transaction systems, information systems applications and implementations, regulations, compliance areas, etc. The audit universe is used to identify target areas for potential audit projects.
- Identification and Weighting of Risk Assessment Criteria - The risk assessment criteria utilized by Audit Services were designed to determine where greatest business risk is present. Under the risk assessment methodology, higher risk areas are given higher audit priority. The seven risk factors used in Audit Services' evaluation are (1) internal control environment, (2) management and personnel, (3) volume/materiality, (4) stability/volatility, (5) complexity, (6) external concerns and/or regulatory pressures, and (7) frequency/extent of previous audit coverage and/or management review. These risk factors are weighted by Audit Services to allow for greater emphasis on certain of the criteria as appropriate.

- Management Interviews - Representatives of Audit Services management meet with the President and Chief Financial Officer of each AHERF operating unit and with the senior corporate officers (Information Services, Corporate Finance, Legal and Human Resources). Additional input is sought as necessary from Operations and other management personnel within each subsidiary organization. During these interviews, the audit universe is reviewed and discussed with management; specific input is received from management as to its perceptions of the most critical audit areas. The risk criteria described above are discussed as they relate to each potential audit topic. In addition, wherever possible, Audit Services attempts to define the scope/focus of each potential audit area and to identify any specific constraints which could affect audit timing and/or priority.
- Weighting and Prioritization of Audit Topics - Audit Services utilizes a weighting matrix to determine audit priority. For each potential audit topic (those identified with management or by Audit Services), an assessment of risk (Low, Medium or High) is assigned for each risk factor. A mathematical "score" is then calculated to determine the relative risk priority of each potential audit topic.

As an additional tool in evaluating the adequacy and appropriateness of Audit Services' proposed audit emphasis, multi-year risk schedules were developed for each significant AHERF operating entity. These schedules show areas of high and moderate risk for each operating unit; the schedules also show the historical, current and proposed audit coverage in these areas by both C&L and Audit Services. These schedules are included in this section of the Agenda for review by the Audit Committee.

After considering the due diligence analyses of the newly-acquired entities, the results of the annual risk assessment process and the historical risk/audit coverage evaluation, Audit Services has developed a proposed Workplan for Fiscal 1998 and a tentative plan for Fiscal 1999 which are included herein.

The specific audit scope, timing and resource requirements for each audit area in the proposed Workplan are evaluated in detail during the planning phase of the project. In order to allow Audit Services to identify and focus on the highest priority areas within each project, large and/or complex audit areas may be subdivided into smaller, more manageable audits. In scheduling the projects identified, the actual timing of audit efforts will consider such factors as anticipated information system changes or conversions, management priorities, auditee workloads, planned procedural changes and the coordination with other internal and external reviews.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Audit Services Workplan - Fiscal 1998
Pittsburgh and Delaware Valley Operations
(Excludes Audits in Process)

New Projects

1. AHERF Retirement Plan/Pension Administrator System
2. AIHG Point-of-Service Operational Reviews
3. Wage and Hour Compliance (Pittsburgh and Delaware Valley)
4. Psychiatry Department Professional Fee Billing Point-of-Service Audit (Pittsburgh)
5. DVR Anesthesia Department Professional Billing Point-of-Service Audit
6. Revenue Capture and Billing Integrity
7. Certified Registered Nurse Anesthetist Professional Fee Billing
8. Physician Credentialing and Enrollment (Delaware Valley)
9. Hospital Accounts Receivable Follow-up - Allegheny General Hospital
10. Managed Care "At-Risk" Arrangements - Settlement Process (selected system-wide contracts)
11. Medicare "72-Hour Rule" Settlement Verification Audit
12. Unrelated Business Income Tax (Delaware Valley)
13. Blue Cross/Pyramid Employee Health Benefit Plan
14. Institutional Affiliation Agreements (Pittsburgh)

IS System-wide Audit Projects

1. Electronic Document Management (FileNet)
2. Nurse Staffing and Scheduling System (ANSOS) Audit
3. Centre Square IS Data Center
4. Billing System Integrity Audits (various applications/interfaces)
5. Audit Programming Support (various audit/review projects)

Medical Audit Initiatives

1. Concurrent Review (targeted cases)
2. Third/Fourth Party Defense Audits
3. Statistical Presentation: Charging and Documentation Accuracy/Completeness
4. Outpatient Charge Capture and Coding Audits (AHERF-wide)

Follow-up Reviews

Follow-up Reviews of Fiscal 1997 and 1998 audits will be performed in accordance with timeframes agreed upon during the original audits.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
Audit Services Workplan - Fiscal 1999
Pittsburgh and Delaware Valley Operations

This tentative Fiscal 1999 Workplan comprises the second year of a "rolling" two-year plan. Accordingly, it represents the current assessment (based on existing facts and circumstances) of certain areas where Audit Services may focus its efforts for Fiscal 1999. In some instances, Audit Services may initiate or complete certain of these projects in Fiscal 1998. It is likely that circumstances and risks will change throughout AHERF during the next year. Accordingly, the continued applicability of this tentative Workplan will be re-evaluated during the risk assessment/planning process in the Spring of 1998.

New Projects

1. Patient Registration (Pittsburgh)
2. Outpatient Registration (Delaware Valley)
3. Medical Records Operational Audits
4. General Control and Transaction System Reviews - newly-acquired entities (both cities)
5. Hospital/Professional Billing: Compliance Issues (ongoing - including new entities)
6. Hospital Accounts Receivable Follow-up - Delaware Valley
7. Psychiatry Department Professional Billing Point-of-Service Audit (Delaware Valley)
8. Physician Credentialing and Enrollment (Pittsburgh)
9. Unrelated Business Income Tax Review (Pittsburgh)
10. Clinical Trials Billing Review
11. AGH Ambulatory Laboratory Program
12. Management Business Expense Audit

IS System-wide Audit Projects

1. Radiology System (IDXRad) - Pittsburgh and Delaware Valley
2. IS Network Support
3. Naming Standards
4. DVR Laboratory System (SUNQUEST) Audit
5. CardioNet System
6. PC Hardware/Software Leasing Program
7. PC/Fileserver Software License Compliance

Medical Audit Initiatives

1. Ongoing Medical Audit Programs (Concurrent Reviews, Defense Audits, etc.)
2. Managed Care Contracting - Utilization Review
3. Educational Presentations (Charging, Documentation, Coding)

Allegheny Health, Education and Research Foundation
Schedule of Risk Areas and Combl. Internal/External Audit Coverage
(Excludes Non-routine Risk Areas and Special Projects/Investigations)
AHERF

Areas of Highest Risk	Desirable Audit Frequency	Fiscal 1999		Planned* Fiscal 1998		Current Fiscal 1997		Historical	
		Annual	AS	Annual	AS	Annual	AS	Fiscal 1996	Fiscal 1995
Financial Statement Areas									
Patient Receivables	Annual	AS		C&L		C&L		C&L	
Third-Party Payor Settlements	Annual			C&L		C&L		C&L	
Managed Care Contracting	Significant changes		AS	C&L, AS					
Self-Insurance Liabilities	Annual			C&L		C&L		C&L	
Debt and Related Compliance	Annual			C&L		C&L		C&L	
Financial Statement Disclosure/Reporting	Annual			C&L		C&L		C&L	
Commitments and Contingencies	Annual			C&L		C&L		C&L	
Acquisition Accounting/Controls	Significant changes		AS	C&L		C&L		C&L	
Compliance/Regulatory Focus Areas									
Tax Matters - Employee vs. Independent Contractor									
- Management Business Expenses	Rotating - 3 years **			AS		AS		AS	
AHERF Retirement/Pension Plan	Rotating - 2 years **		AS			AS		AS	
AHERF 403(b) Matched Savings Plan	Annual	AS		C&L		C&L		C&L	
Operational Controls/Efficiency Reviews	Rotating - 3 years **			AS		AS			
Employee Benefits/Human Resource Systems - PGH	Significant changes		AS			AS		AS	
Employee Benefits/Human Resource Systems - DVR	Significant changes			AS		AS			

C&L - Coopers & Lybrand
AS - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only
** - Greater audit frequency may be necessary if there are significant changes in operations or systems

Allegheny Health, Education and Research Foundation
 Schedule of Risk Areas and Combined Internal/External Audit Coverage
 (Excludes Non-routine Risk Areas and Special Projects/Investigations)
 AHERF

Areas of Highest Risk	Desirable Audit Frequency	Potential Frequency	Planned* Fiscal 1996	Current Fiscal 1996	Historical Fiscal 1995	Historical Fiscal 1994
IS Data Center Operations/General Controls - PGH	Rotating - 2 years **	AS	C&L, AS	C&L	C&L	C&L, AS
IS Data Center Operations/General Controls - DVR	Rotating - 2 years **	AS	C&L	C&L	C&L	C&L, AS
IS Disaster Recovery Review - PGH	Rotating - 2 years **			C&L, AS		AS
IS Disaster Recovery Review - DVR	Rotating - 2 years **			C&L, AS		AS
PC and Local Area Network Controls/Support - PGH	Rotating - 3 years **	AS		AS		
PC and Local Area Network Controls/Support - DVR	Rotating - 3 years **	AS		AS		
Professional Fee Billing Operations - PGH	Significant changes		AS		AS	
Professional Fee Billing Operations - DVR	Significant changes		AS		AS	
Hospital Billing Operations - PGH	Significant changes		AS		AS	
Hospital Billing Operations - DVR	Significant changes	AS	AS			

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C&L - Coopers & Lybrand
 - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only
 ** - Greater audit frequency may be necessary if there are significant changes in operations or systems

**All Allegheny Health, Education and Research Foundation
Schedule of Risk Areas and Combined Internal/External Audit Coverage
(Excludes Non-routine Risk Areas and Special Projects/Investigations)**

AHERF

Areas of Moderate Risk	Desirable Audit Frequency	Tentative* Fiscal 1999	Planned** Fiscal 1998	Historical	
				Current Fiscal 1997	Fiscal 1996
Financial Statement Areas	Annual			C&L	C&L
Accrued Expenses	Significant changes			C&L	C&L
Cash and Short-term Investments	Significant changes			C&L	C&L
Purchasing/Accounts Payable	Annual			C&L, AS	C&L
Payroll and Related Systems	Annual			C&L	C&L
Related Party Transactions	Annual	AS	C&L	C&L	C&L
Compliance/Regulatory Focus Areas	Rotating - 3 years**	AS (PGH)	AS (DVR)		
Tax Matters - Unrelated Business Income Tax					
- Tuition Assistance Program	Significant changes			AS	
Wage and Hour Compliance	Significant changes		AS		
Workers' Compensation Program	Significant changes				AS

C&L - Coopers & Lybrand
AS - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only
** - Greater audit frequency may be necessary if there are significant changes in operations or systems

Allegheny Health, Education and Research Foundation
Schedule of Risk Areas and Combined Internal/External Audit Coverage
(Excludes Non-routine Risk Areas and Special Projects/Investigations)
AHERF

Areas of Moderate Risk	Desirable Audit Frequency	Historical		
		Planned* Fiscal 1995	Planned* Fiscal 1998	Current Fiscal 1997
Charity Care	Significant changes			AS
Operational Controls/Effectiveness Reviews	Rotating - 3 years			
Physician Credentialing and Enrollment - PGH	AS			
Physician Credentialing and Enrollment - DVR	Rotating - 3 years	AS		
Equipment Rental and Maintenance Expense	Significant changes		AS	
Prime Vendor Contracts/Relationships	Significant changes		AS	AS
Collection Agency Relationships	Rotating - 3 years **		AS	

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C&L - Coopers & Lybrand
AS - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only
** - Greater audit frequency may be necessary if there are significant changes in operations or systems

Allegheny Health, Education and Research Foundation
Schedule of Risk Areas and Combined Internal/External Audit Coverage
(Excludes Non-routine Risk Areas and Special Projects/Investigations)
ALLEGHENY UNIVERSITY OF THE HEALTH SCIENCES

Area of High and/or Moderate Risk	Desirable Audit Frequency	Foothill 1999		Current Risk 1997		Historical	
		Planned* Fiscal 1998	Planned* Fiscal 1999	Current Risk 1997	Fiscal 1996	Fiscal 1995	Fiscal 1994
Bursars Office/Student Information System	Rotating - 3 years **			AS			
Research Accounting (Grants/Contracts)	Annual			C&L, AS	C&L	C&L	C&L
Student Financial Aid Programs	Annual			C&L	C&L	C&L	C&L
Faculty Practice Revenue (selected SIGNATURE areas/departments)	Rotating - 3 years	AS	AS	AS	AS	AS	AS
Faculty Practice Revenue (selected Non-SIGNATURE areas/departments)	Rotating - 2 years		AS	AS	AS		
Support to Non-Employed Physicians (Fraud and Abuse)	Rotating - 2 years				AS		
Billing Compliance Issues	Ongoing	AS	AS	AS			
Revenue Capture, Documentation and Coding Integrity	Ongoing	AS	AS	AS		AS	
Fund Development Operations	Rotating - 3 years **						
Internet Risks and Exposure	Significant changes				AS		
Travel and Business Expenses	Rotating - 3 years **				AS		

(2-20-97/AUHSRISK.SCHV/document.1kts)

C&L - Coopers & Lybrand
AS - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only

** - Greater audit frequency may be necessary if there are significant changes in operations or systems

Allegheny Health, Education and Research Foundation
Schedule of Risk Areas and Combined Internal/External Audit Coverage
 (Excludes Non-routine Risk Areas and Special Projects/Investigations)
ALLEGHENY GENERAL HOSPITAL

Areas of High and/or Moderate Risk	Desirable Audit Frequency	Historical		Fiscal 1995		Fiscal 1996		Fiscal 1997		Planned * Fiscal 1998	
		Temporary * Fiscal 1999	Planned * Fiscal 1999	C&L	C&L	C&L	C&L	C&L	C&L	C&L	
Hospital Revenue Systems (Inpatient and Outpatient)	Annual	AS	AS	AS	AS	AS	AS	AS	AS	AS	
Support to Non-Employed Physicians (Fraud and Abuse)	Rotating - 2 years **			AS						AS	
Billing Compliance Issues	Ongoing	AS	AS	AS	AS	AS	AS	AS	AS	AS	
Controlled Substance Review	Rotating - 2 years				AS						
Sales and Use Taxes	Rotating - 3 years				AS						
Travel and Business Expenses	Rotating - 3 years				AS						
Research Grants/Contracts	Annual				C&L					C&L	
Faculty Practice Revenues (selected areas/departments)	Rotating - 3 years			AS							
Operational Areas (including related automated systems):				AS	AS	AS	AS	AS	AS	AS	
- Patient Registration	Rotating - 3 years			AS							
- Emergency Services	Rotating - 3 years **						AS				
- Surgical Services	Rotating - 3 years **							AS			

C&L - Coopers & Lybrand
 AS - AHERF Audit Services Department

* - Intended to reflect internal audit coverage only
 ** - Greater audit frequency may be necessary if there are significant changes in operations or systems

Allegheny Health, Education and Research Foundation
 Schedule of Risk Areas and Combined Internal/External Audit Coverage
 (Excludes Non-routine Risk Areas and Special Projects/Investigations)
ALLEGHENY GENERAL HOSPITAL

Areas of High and/or Moderate Risk	Desirable Audit Frequency	Tentative Fiscal 1999		Planned Fiscal 1998		Current Fiscal 1997		Budgeted					
		Planned	Fiscal 1999	Planned	Fiscal 1998	Planned	Fiscal 1997	Planned	Fiscal 1996	Planned	Fiscal 1995	Planned	Fiscal 1994
- Radiology	Rotating - 3 years ** AS									AS			
- Laboratory	Rotating - 3 years ** AS					AS							
- Pharmacy	Rotating - 3 years ** AS												
Cash Receipts Controls	Rotating - 2 years ** AS									AS			
Fund Development	Rotating - 3 years ** AS									AS			

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